DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 6, 2000

Accounting Policy Memorandum – OAIC 99-01

MEMORANDUM FOR BUREAU CHIEF FINANCIAL OFFICERS
BUREAU DEPUTY CHIEF FINANCIAL OFFICERS

FROM: James R. Lingebach
Acting Deputy Chief Financial Officer

SUBJECT: Departmental Policy on Capitalization

The Office of the Deputy Chief Financial Officer is issuing this document to codify existing Departmental Policy on Capitalization within the Accounting Policy Memorandum (APM) series. This APM restates in a single document the Department's policy on capitalization of fixed assets and contains no new guidance since the issuance dates of the previously released memoranda (attached).

Consistent with Treasury Directive 32-01, *Accounting Principles and Standards*, this memorandum provides additional implementation guidance to amend the Department's accounting principles and standards.

Attachments (8 pages)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 28, 1999

MEMORANDUM FOR BUREAU CHIEF FINANCIAL OFFICERS
BUREAU DEPUTY CHIEF FINANCIAL OFFICERS

FROM: Steven O. App Steven O. App
Deputy Chief Financial Officer

SUBJECT: Departmental Policy on Capitalization

This memorandum restates in a single document the Department's policy on capitalization of fixed assets that had been issued previously in several documents. Details on specific policies can be obtained from the memoranda issued previously, which are attached for your reference. This document contains no new accounting policies; rather, it clarifies that bulk purchase capitalization thresholds should apply to aggregate purchases as well.

General Property, Plant and Equipment (memo dated 8/14/96)

The capitalization threshold for general PP&E is established at a minimum of $25,000, not to exceed the maximum of $50,000.

Bulk Purchases (memo dated 12/3/98)

The capitalization threshold for **bulk purchases** is established at a minimum of $250,000 and not to exceed a maximum of $500,000. A bulk purchase of general PP&E is the single purchase of like items in a lot, with the cost of each individual item being below the bureau's established capitalization threshold. If some of the items in the lot exceed the capitalization threshold, they will be capitalized separately (i.e., between $25,000 and $50,000) and not considered to be a part of the bulk purchase lot. Manufacturing activities will use the Departmental fixed asset capitalization threshold established at a minimum of $25,000 and maximum of $50,000. Bureau management will select its bulk purchase capitalization threshold, within the given range, and also determine a threshold for minimum individual item cost, in bulk purchase lots, that is most reasonable for its particular operating environment.

However, in consideration of management discretion and cost-effectiveness, bureau management may expense bulk purchases if they conclude that total period costs would not be materially distorted and that the cost of capitalization is not economically feasible. Bureaus/Reporting Entities that are required to prepare audited financial statements should reach an understanding with their auditors on materiality for this purpose (ref: *AICPA Statement on Auditing Standards No. 85, Management Representation"*). Capitalization of bulk purchases is economically feasible if the benefits outweigh the accounting costs. Documentation supporting such determinations must be maintained by bureau management.

Aggregate Purchases

Although not stated in the previous policy guidance, the capitalization threshold for **aggregate purchases** is established at a minimum of $250,000 and not to exceed a maximum of $500,000, as with the bulk purchases. The cost of each individual item is below the minimum capitalization threshold of $25,000 and the maximum of $50,000. Aggregate purchases are multiple purchases of items (furniture, ADP hardware/software, etc.) that are in the aggregate in excess of the capitalization criteria, and directly related to a specific project.

Working Capital Fund (WCF) Equipment Purchases (memo dated 11/10/97)

The Working Capital Fund (WCF) is subject to all of the Department of the Treasury's capitalization policies. Similar to all other Treasury reporting entities, the WCF will determine how best to implement these capitalization policies in its own operating environment. What is unique for WCF financial reporting compared to other Treasury reporting entities is that all assets that meet the WCF capitalization requirements, regardless of where the assets are physically located, are reported on the financial statements of the WCF.

Internal Use Software

Internal use software is classified as general property, plant and equipment (PP&E) as defined in Statement of Federal Financial Accounting Standards (SFFAS) No. 6, ***Accounting for Property Plant, and Equipment***. Accordingly, it is subject to the same Departmental accounting provisions and financial reporting criteria as any other asset under PP&E, bulk purchases or aggregate purchases -- with one exception for internally developed software. Internal use software subject to these provisions is limited to either contractor developed or commercial off-the-shelf purchases. Internally developed software, that is software developed by federal employees, has no guidelines or standards and should not be capitalized until SFFAS No. 10, ***Accounting for Internal Use Software***, becomes effective October 1, 2000. Provisions that were in effect and contained in SFFAS No. 6 ¶ 27 and 28 were rescinded with the issuance of SFFAS No. 10 on October 9, 1998.

While SFFAS No. 10 allows for early implementation, the Department has maintained that no standards should be implemented early. The Department's rational for this position is based on the concern for consistency in reporting by all Treasury bureaus/reporting entities. This position helps to bring consistency to the Department's consolidated financial statements. However, if a Treasury bureau/reporting entity and their auditors together think that following this provision would lead to a material misstatement in the financial statements, consideration should be given to capitalizing the full cost (direct and indirect cost) incurred during the software development stage. This provision would only be followed if the Department and its auditors are in agreement that failure to do otherwise would materially misstate the Department's consolidated financial statements.

The Department recognizes that the Accounting and Auditing Policy Committee (AAPC) is undertaking a governmentwide study, that Treasury has representation on, to determine how best to implement SFFAS No. 10. The Department thinks that early implementation prior to the recommendations of the AAPC could be ill advised, unless there are compelling reasons demonstrated and supported by both bureau management and their auditors to the Department and the Office of Inspector General.

IMPLEMENTATION

All policies within this document are effective for accounting periods ending as of September 30, 1999. Management of all bureaus/reporting entities need to exercise judgement in implementing these polices. Management should consider their own operating environments that may include unique characteristics compared to other Treasury reporting entities.

BACKGROUND

Statement of Federal Financial Accounting Standards No. 6 (exposure draft when policy was written), entitled, ***Accounting for Property, Plant, and Equipment,*** ¶ 149 states that "Each entity would establish its own threshold as well as guidance on applying the threshold to bulk purchases. The Board believes that permitting management discretion in establishing capitalization policies will lead to a more cost-effective application of the accounting standards." Consequently, the Department's Chief Financial Officers (CFO) Council approved to raise the capitalization threshold to a minimum level of $25,000, and not to exceed a maximum level of $50,000 for general plant, property, and equipment. The Departmental policy was issued in a memorandum dated August 14, 1996.

The Department also issued a memorandum dated December 3, 1998, which established the capitalization threshold for bulk purchases.

Recently, Treasury conducted a survey of nine other Federal agencies that identified capitalization thresholds in a range from a high of $200,000 to a low of $5,000. Accordingly, Treasury's range of $25,000 to $50,000 is consistent with other agencies, and consistent with the intention of the SFFAS No. 6. SFFAS No. 6 recognizes that Federal entities are too diverse to require one threshold for all entities, hence the Board adopted an approach that allows each Federal entity to establish its own capitalization threshold. This position is restated in SFFAS No. 10, ***Accounting for Internal Use Software.***

The Department will follow the above-established policy for capitalization of fixed assets, bulk purchases, aggregate purchases, and internal use software. Bureau management will select its own capitalization threshold, within the given range, that is most reasonable for its particular operating environment.

If you have any questions, please contact Jack Blair, Assistant Director for Accounting, Office of Accounting and Internal Control, at (202) 622-0812.

Attachments

cc: William Pugh, OIG

ATTACHMENTS

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 14, 1996

MEMORANDUM FOR BUREAU CHIEF FINANCIAL OFFICERS
BUREAU DEPUTY CHIEF FINANCIAL OFFICERS

FROM: Steven O. App Steven O. App
Deputy Chief Financial Officer

SUBJECT: Fixed Asset Capitalization Threshold

This memorandum authorizes all Treasury bureaus and entities to implement the newly adopted fixed asset capitalization threshold. Attached is a copy of the Treasury Chief Financial Officer Council final report which recommended an increase from the old level of $5,000.

The revised capitalization threshold was voted and approved by the Treasury Chief Financial Officers Council on May 1, 1996. Specifically, it was agreed to raise Treasury's fixed asset capitalization threshold to a maximum of $50,000. Because of the potential impact of this increase capitalization level on some bureaus, an option of using the minimum level of $25,000 was also established and approved.

Treasury bureaus should implement the new fixed asset capitalization thresholds as soon as possible and preferably in time for the fiscal year 1996 financial statements.

Attachment

cc: George Muñoz

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

DEC 0 3 1998

MEMORANDUM FOR BUREAU CHIEF FINANCIAL OFFICERS
DEPUTY CHIEF FINANCIAL OFFICERS

FROM: Steven O. App Steven O. App
Deputy Chief Financial Officer

SUBJECT: Departmental Policy Regarding Bulk Purchases

The purpose of this memorandum is to clarify the Department's policy regarding the capitalization of bulk purchases. This is effective for Fiscal Year 1999. However, earlier implementation is permitted.

Statement of Federal Financial Accounting Standards Number 6 (SFFAS No. 6) **does not** set a capitalization threshold as an element of the property, plant and equipment (PP & E) definition. In reaching the conclusions in SFFAS No. 6, the Federal Accounting Standards Advisory Board (FASAB) noted the diversity of Federal entities and concluded that one threshold would not be suitable for all entities. Instead of setting a specific threshold, the FASAB adopted a materiality approach which allows each Federal entity to establish its own capitalization threshold as well as guidance on applying the threshold to bulk purchases. FASAB noted that permitting management discretion in establishing capitalization policies will lead to a more cost-effective application of the accounting standards.

Similar to the Federal Government taken as a whole, the Department of the Treasury is comprised of many components that are diverse both in size and in operating environment. Accordingly, Departmental policy permits latitude to bureau management, with regard to bulk purchases.

Departmental policy is as follows:

Bulk Purchase of Property, Plant and Equipment

A bulk purchase of general property, plant and equipment is the single purchase of like items in a lot, (i.e., the items have the same basic utility and are composed of similar parts - furniture, ADP hardware, etc.). The individual cost of items included in a bulk purchase lot do not exceed the threshold chosen by a bureau within the Departmental capitalization threshold range (maximum of $50,000 and minimum of $25,000). Note, if some of the individual items in the lot exceed the capitalization threshold they will be capitalized separately and, for capitalization purposes, not considered to be a part of the bulk purchase lot.

A capitalization threshold minimum of $250,000 and maximum of $500,000 will be used for bulk purchases (manufacturing activities will use the Departmental fixed asset capitalization threshold maximum of $50,000 and minimum of $25,000). Bureau management will select its bulk purchase capitalization threshold, within the given range, and also determine a threshold for minimum individual item cost, in bulk purchase lots, that is most reasonable for its particular operating environment.

However, in consideration of management discretion and cost-effectiveness, bureau management may expense bulk purchases if they conclude that total period costs would not be materially distorted and that the cost of capitalization is not economically feasible. Bureaus that are required to prepare audited financial statements should reach an understanding with their auditors on materiality for this purpose (ref: *AICPA Statement on Auditing Standards No. 85, "Management Representations")*. Capitalization of bulk purchases is economically feasible if the benefits outweigh the accounting costs. Documentation supporting such determinations must be maintained by bureau management.

Each bureau must notify the Department of the thresholds that it has selected for bulk purchases by December 15, 1998. Please forward your notification to:

Office of Accounting and Internal Control
1310 G St., N.W.
Suite 200 East
Washington, D.C. 20220

If you have any questions, please contact Joe McAndrew, Office of Accounting and Internal Control, on 622-0807.

cc Bill Pugh

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

NOV 10 1997

MEMORANDUM FOR BUREAU CHIEF FINANCIAL OFFICERS

FROM: Kathryn Anne Melvin
Deputy Chief Financial Officer
Departmental Offices

SUBJECT: Working Capital Fund Equipment Purchases

As the organization responsible for the Working Capital Fund (WCF) accounting, I have been asked to clarify the WCF capitalization policy. WCF assets with an initial acquisition unit cost of $25,000 or more are capitalized at cost when directly purchased by the WCF. WCF equipment with an acquisition cost of less than $25,000, or a service life of less than two years, is expensed when purchased. Capitalized assets (equipment) are depreciated using the straight line method over the useful life of the assets which range from 3 to 15 years. Any property which was purchased by another bureau acting as an executive agent of the WCF would be expensed at the time the WCF reimbursed the executive agent since that property was not directly paid for by the WCF at purchase.

If you, your staff or your auditors have any questions concerning the above policy, please have them contact me on 622-1164.